

Message Text

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ACTION EUR-12

INFO OCT-01 ISO-00 CIAE-00 PM-03 INR-05 L-02 ACDA-05

NSAE-00 PA-01 RSC-01 PRS-01 SP-02 USIA-06 TRSE-00

SAJ-01 EB-04 COME-00 DODE-00 FRB-01 CIEP-01 EURE-00

/046 W

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P 121340Z NOV 74

FM USMISSION NATO

TO SECSTATE WASHDC PRIORITY 8725

C O N F I D E N T I A L USNATO 6275

E.O. 11652: GDS

TAGS: ECON, MILI, UR, NATO

SUBJECT: ECONADS: DRAFT PAPER ON SOVIET DEFENSE SPENDING

REF: USNATO 5115

1. ECONOMIC DIRECTORATE HAS PREPARED DRAFT REPORT ON BASIS OF OCTOBER 24 EXPERTS MEETING ON SOVIET DEFENSE EXPENDITURES (PARA 3 BELOW). DIRECTORATE WOULD APPRECIATE US CLEARANCE OF DRAFT BEFORE SUBMITTING IT OT ECONOMIC COMMITTEE. PLEASE ASK US EXPERT WHO ATTENDED MEETING TO REVIEW DRAFT AND PROVIDE SUGGESTED REVISIONS, AS EXTENSIVE AS HE BELIEVES NECESSARY TO PRODUCE CLEAR AND ACCURATE REPORT.

2. MISSION BELIEVES PARA 5 OF PAPER POORLY DRAFTED AND SHOULD BE REWRITTEN ALONG FOLLOWING LINES: QUOTE DUE TO THE HISTORICALLY CYCLICAL NATURE OF SOVIET DEFENSE SPENDING, IT IS LIKELY THAT THE PRESENT HIGHER RATE OF INCREASE WILL DISAPPEAR IN THE SECOND HALF OF THE DECADE. IT IS POSSIBLE, HOWEVER, THAT SOVIET DEFENSE ESPENDITURES WILL REMAIN AT THE SAME LEVEL FOR A LONGER PERIOD WHICH CANNOT AT THE MOMENT BE FORECAST. AT ANY RATE, SOVIET DEFENSE SPENDING SEEMS ISOLATED FROM OUTSIDE CONSIDERATIONS; AND MILITARY PROGRAMS DO NOT APPEAR, AS IN WESTERN COUNTRIES, CONFIDENTIAL

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TO BE AFFECTED BY CHANGES IN DOMESTIC POLICY OR INTER-NATIONAL DEVELOPMENTS. UNQUOTE. PARA 6 OF DRAFT IS ALSO POORLY WORDED AND SHOULD BE REWRITTEN IN THE INTEREST OF CLARITY.

3. QUOTE SOVIET DEFENCE EXPENDITURES
NOTE BY THE CHAIRMAN OF THE ECONOMIC COMMITTEE (DRAFT)

SOVIET OUTLAY FOR DEFENCE IN 1973 IS ESTIMATED TO RANGE BETWEEN 27 TO 30 BILLION RUBLES, A FIGURE ONE THIRD GREATER THAN THE OFFICIAL BUDGET, WHICH IS OF POLITICAL SIGNIFICANCE RATHER THAN OF REAL ACCOUNTING VALUE. IF THE VARIOUS COMPONENTS OF THIS REAL EXPENDITURE ARE PRICED IN DOLLARS AND IN AMERICAN DOMESTIC PRICES, THE SOVIET DEFENCE EFFORT IN QUANTITATIVE TERMS SEEMS TO BE OF THE SAME MAGNITUDE AS THAT OF THE UNITED STATES.

2. ANALYSIS OF THE TOTAL VALUE OF SOVIET MILITARY EXPENDITURE, HOWEVER, IS MAINLY OF INTEREST IN THAT IT MAKES IT POSSIBLE TO COMPARE ESTIMATES OF ANNUAL OUTLAY AND TO BRING OUT TRENDS; THUS, FOR INSTANCE, IT APPEARS THAT FOR MORE THAN A DECADE SOVIET DEFENCE OUTLAY HAS, IN REAL TERMS, RISEN AT 3PCT PER YEAR ON AN AVERAGE.

3. WITHIN THE LONG TERM TREND OF EXPENDITURE THERE ARE CONSIDERABLE FLUCTUATIONS. THESE VARIATIONS FORM A CYCLE: THROUGHOUT THE PERIOD 1965-68 THE RATE OF INCREASE OF MILITARY EXPENDITURE WAS MORE THAN 3PCT, ON THE OTHER HAND BETWEEN 1969 AND 1972 IT WAS LESS; SINCE 1972 IT IS AGAIN HIGHER THAN THE AVERAGE AND JUDGING BY PRELIMINARY ESTIMATES IT IS LIKELY TO REMAIN SO FOR TWO OR THREE YEARS.

4. WHEREAS OUTLAY ON MAINTENANCE AND OPERATIONS OF THE ARMED FORCES RISES MODERATLY AND REGULARLY, FINANCIAL SUPPORT FOR MILITARY RESEARCH AND DEVELOPMENT ON THE ONE HAND AND FOR ARMAMENT PRODUCTION PROGRAMMES ON THE OTHER TEND TO ALTERNATE, AND THUS GIVE A CYCLICAL CHARACTER TO SOVIET MILITARY EXPENDITURE: WHEREAS BETWEEN 1969 AND 1972 OUTLAY IN EQUIPMENT TENDED TO DECREASE THE SPURT IN EXPENDITURE ON RESEARCH AND DEVELOPMENT, ACCOMPANIED AT THE END OF THE PERIOD BY A NEW PHASE OF EXPERIMENTAL MISSILE FIRINGS, INDICATED THAT A NEW ARMAMENT PRODUCTION PROGRAMME WAS ABOUT TO BEGIN, OUTLAY
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ON THIS PROGRAMME STARTED, IT WOULD SEEM, IN 1973 AND IT IS THOUGHT THAT AS A RESULT TOTAL DEFENCE OUTLAY IS GOING TO RISE AT AN ABOVE AVERAGE RATE UNTIL 1976 AT LEAST, ALTHOUGH GROWTH IN EXPENDITURE ON RESEARCH AND DEVELOPMENT WOULD SEEM TO BE DIMINISHING. BASICALLY THIS FINANCIAL PROGRAMME COVERS:

THE PRODUCTION AND DEPLOYMENT OF A NEW GENERATION OF STRATEGIC WEAPONS REPLACING LESS POWERFUL WEAPONS;

THE REPLACEMENT OF CERTAIN CONVENTIONAL WEAPONS ESPECIALLY TACTICAL AIRCRAFT AND TANKS BY MORE MODERN EQUIPMENT.

5. IT IS LIKELY THAT THE PRESENT CYCLICAL PATTERN SHOWN

BY THE DEFENCE EFFORT WILL DISAPPEAR IN THE SECOND HALF OF THE DECADE, IT IS ALSO POSSIBLE THE DEFENCE EXPENDITURE WILL REMAIN AT THE SAME LEVEL OVER A PERIOD WHICH CANNOT AT THE MOMENT BE FORECAST, BUT IT IS UNLIKELY TO GO DOWN. THE SOVIET DEFENCE EFFORT SEEMS INDEED TO BE A FEATURE OF THE SYSTEM, AND MILITARY PROGRAMMES DO NOT APPEAR, AS IN WESTERN COUNTRIES, TO BE AFFECTED BY CHANGES IN DOMESTIC POLICY.

6. ALTHOUGH THE DEFENCE EFFORT ABSORBS ABOUT 8-10 PCT OF THE NATIONAL PRODUCT, THE SOVIET ECONOMY, WHICH AT THE MOMENT IS GROWING AT THE RATE OF 5-6PCT A YEAR, IS ABLE TO MAINTAIN WITHOUT STRAIN A REGULAR RISE IN MILITARY EXPENDITURE OF THE ORDER OF 3PCT A YEAR ON AVERAGE. MOREOVER, GIVEN THE CHARACTER OF THE ECONOMY, WHICH IS MORE A WAR ECONOMY THAN A CONSUMERS ECONOMY, AND THE INFLEXIBILITY OF ITS WORKING, THE TRANSFER TO THE CONSUMER SECTOR OR TO THE CIVILIAN SECTOR GENERALLY OF AN APPRECIABLE SHARE OF RESOURCES AT PRESENT GIVEN OVER TO DEFENCE WOULD CERTAINLY CAUSE CONSIDERABLE DISORGANIZATION AND MIGHT OCCASION UNFORESEEN CONSEQUENCES ON THE ECONOMY. UNQUOTE. MCAULIFFE

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Message Attributes

Automatic Decaptioning: X
Capture Date: 11 JUN 1999
Channel Indicators: n/a
Current Classification: UNCLASSIFIED
Concepts: n/a
Control Number: n/a
Copy: SINGLE
Draft Date: 12 NOV 1974
Decaption Date: 01 JAN 1960
Decaption Note:
Disposition Action: RELEASED
Disposition Approved on Date:
Disposition Authority: garlanwa
Disposition Case Number: n/a
Disposition Comment: 25 YEAR REVIEW
Disposition Date: 28 MAY 2004
Disposition Event:
Disposition History: n/a
Disposition Reason:
Disposition Remarks:
Document Number: 1974ATO06275
Document Source: ADS
Document Unique ID: 00
Drafter: n/a
Enclosure: n/a
Executive Order: 11652 GDS
Errors: n/a
Film Number: n/a
From: NATO
Handling Restrictions: n/a
Image Path:
ISecure: 1
Legacy Key: link1974/newtext/t19741185/abbryykt.tel
Line Count: 130
Locator: TEXT ON-LINE
Office: n/a
Original Classification: CONFIDENTIAL
Original Handling Restrictions: n/a
Original Previous Classification: n/a
Original Previous Handling Restrictions: n/a
Page Count: 3
Previous Channel Indicators:
Previous Classification: CONFIDENTIAL
Previous Handling Restrictions: n/a
Reference: USNATO 5115
Review Action: RELEASED, APPROVED
Review Authority: garlanwa
Review Comment: n/a
Review Content Flags:
Review Date: 10 APR 2002
Review Event:
Review Exemptions: n/a
Review History: RELEASED <10 APR 2002 by martinml>; APPROVED <28-Oct-2002 by garlanwa>
Review Markings:

Declassified/Released
US Department of State
EO Systematic Review
30 JUN 2005

Review Media Identifier:
Review Referrals: n/a
Review Release Date: n/a
Review Release Event: n/a
Review Transfer Date:
Review Withdrawn Fields: n/a
Secure: OPEN
Status: NATIVE
Subject: ECONADS: DRAFT PAPER ON SOVIET DEFENSE SPENDING
TAGS: ECON, MILI, UR, NATO
To: STATE
Type: TE
Markings: Declassified/Released US Department of State EO Systematic Review 30 JUN 2005